

**THE FOUNDATION FOR THE
LSU HEALTH SCIENCES CENTER**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

TABLE OF CONTENTS

Page

Financial Section

Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Reports Required by *Government Auditing Standards* and the Single Audit Act

Reports Related to the Entity:

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	21
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Reports and Information Required Under the Single Audit Act:

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	23
Schedule of Expenditures of Federal Awards	25
Footnotes to the Schedule of Expenditures of Federal Awards	26
Schedule of Findings and Questioned Costs	27
Summary Schedule of Prior Year Findings and Questioned Costs	28
Management's Corrective Action Plan	29

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Foundation for the LSU Health Sciences Center
New Orleans, Louisiana

We have audited the accompanying Statement of Financial Position of the Foundation for the LSU Health Sciences Center (the "Foundation") (a nonprofit organization) as of June 30, 2011, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the Foundation's 2010 financial statements, audited by Rebowe & Company, CPAs, who merged with Carr, Riggs and Ingram, LLC as of August 8, 2011, and, in their report dated August 19, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2011, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Carr, Riggs & Ingram, LLC

September 2, 2011

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2011
(with comparative totals for 2010)

ASSETS	2011	2010
Current Assets		
Cash and cash equivalents	\$ 5,029,166	\$ 792,868
Investments	8,272,204	4,106,702
Unconditional promises to give, net	700	1,300
Cash restricted for debt service	108,836	98,058
Other receivables	445,172	1,234,561
Total current assets	13,856,078	6,233,489
Noncurrent Assets		
Investments	93,325,143	83,037,963
Unconditional promises to give, net	8,235	10,255
Construction in progress	802,315	-
Land	215,027	315,467
Total noncurrent assets	94,350,720	83,363,685
Total assets	\$ 108,206,798	\$ 89,597,174
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 569,759	\$ 403,479
Bonds payable	90,000	85,000
Split-interest agreements	6,795	6,795
Total current liabilities	666,554	495,274
Noncurrent Liabilities		
Amounts held in custody for others	22,818,885	19,347,004
Bonds payable, net	1,194,319	1,482,728
Split-interest agreement	48,398	49,708
Total noncurrent liabilities	24,061,602	20,879,440
Total liabilities	24,728,156	21,374,714
Net Assets		
Unrestricted (Deficit)	4,442,219	(154,616)
Temporarily restricted	33,406,590	24,366,398
Permanently restricted	45,629,833	44,010,678
Total net assets	83,478,642	68,222,460
Total liabilities and net assets	\$ 108,206,798	\$ 89,597,174

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011
(with comparative totals for 2010)

	2011	2010
UNRESTRICTED NET ASSETS		
Unrestricted revenues and other support:		
Contributions	\$ 20,912	\$ 74,128
Management and deposit fee income	1,297,441	1,263,660
Investment income – net	2,912,959	1,287,530
Federal grant revenue	792,073	-
Other income	901,540	734,525
	5,924,925	3,359,843
Net assets released from restrictions	5,345,793	5,554,375
Total unrestricted revenues and other support	11,270,718	8,914,218
Expenses:		
Program services	5,345,793	5,554,375
General and administrative	547,505	633,929
Development	780,585	380,826
Casualty loss - building	-	1,073,873
	6,673,883	7,643,003
Increase in unrestricted net assets	4,596,835	1,271,215
TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted revenues and other support:		
Contributions	3,129,740	3,354,920
Investment income – net	12,120,762	7,107,643
Other income (expense)	(864,517)	272,714
	14,385,985	10,735,277
Net assets released from restrictions	(5,345,793)	(5,554,375)
Increase in temporarily restricted net assets	9,040,192	5,180,902
PERMANENTLY RESTRICTED NET ASSETS		
Permanently restricted revenues and other support:		
Contributions	1,619,155	966,084
	1,619,155	966,084
Increase in permanently restricted net assets	1,619,155	966,084
Increase in net assets	15,256,182	7,418,201
Net assets at beginning of year	68,222,460	60,804,259
Net assets at end of year	\$ 83,478,642	\$ 68,222,460

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011
(with comparative totals for 2010)

	Program Services - Scientific, Research and Educational Enhancement of The LSU Health Sciences Center	Supporting Services		Totals	
		General and Administrative	Development	2011	2010
Advertising	\$ 395	\$ -	\$ 11,064	\$ 11,459	\$ 6,425
Bank charges	-	17,601	-	17,601	22,252
Clinical trials, professional education and seminars	117,551	2,186	-	119,737	52,788
Community support	90,668	11,750	396,218	498,636	196,062
Conferences, meetings, and other travel	652,092	-	898	652,990	626,602
Credit card fees	11,076	185	-	11,261	9,112
Depreciation and amortization	-	1,591	-	1,591	88,155
Dues and subscriptions	131,663	9,258	38,250	179,171	164,498
Entertainment	520,493	182	-	520,675	656,615
Equipment purchases	27,923	340	14,470	42,733	78,815
Honoraria	24,821	-	-	24,821	30,255
Insurance	-	34,663	24,728	59,391	61,969
Interest expense	-	12,738	-	12,738	12,985
Management and deposit fees	1,297,440	-	-	1,297,440	1,263,660
Meeting expenses	17,244	4,527	-	21,771	17,757
Miscellaneous	316	344	-	660	14,848
Occupancy	27,592	13,976	1,525	43,093	51,479
Postage and shipping	9,648	1,418	-	11,066	6,548
Printing and publications	61,750	5,076	-	66,826	34,306
Professional fees and contract service payments	266,139	90,500	22,036	378,675	493,677
Recruitment and relocation	52,051	-	-	52,051	54,406
Repairs and maintenance	6,317	1,727	-	8,044	1,061
Salaries and benefits	-	329,674	245,784	575,458	548,647
Salary supplemental payments	968,179	-	12,500	980,679	1,124,509
Scholarships and awards	181,011	-	12,000	193,011	143,086
Supplies	881,424	9,769	1,112	892,305	808,613
	<u>\$ 5,345,793</u>	<u>\$ 547,505</u>	<u>\$ 780,585</u>	<u>\$ 6,673,883</u>	<u>\$ 6,569,130</u>

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011
(with comparative totals for 2010)

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 15,256,182	\$ 7,418,201
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	1,591	88,155
Gain on sale of property	(18,294)	-
Loss on disposition of building	-	1,073,873
Provision for uncollectible promises to give	2,667	34,494
Net change in discount on unconditional promises to give	(47)	(5,602)
Realized and unrealized gain on investments	(15,269,722)	(8,655,001)
Changes in operating assets and liabilities:		
Decrease in other receivables	789,389	717,485
Increase in accounts payable and accrued expenses	166,280	63,148
Decrease in split-interest agreement	(1,310)	(4,158)
Increase in funds held in custody	3,471,881	1,841,277
Contributions permanently restricted by donors	(1,619,155)	(966,084)
Net cash provided by (used in) operating activities	2,779,462	1,605,788
Cash Flows From Investing Activities		
Net (purchases) sales and maturities of investments	817,040	(1,688,446)
Change in cash restricted for debt service	(10,778)	(4,754)
Proceeds from sale of property	118,734	-
Additions to construction in progress	(802,315)	-
Purchase of property and equipment	-	(16,529)
Net cash provided by (used in) investing activities	122,681	(1,709,729)
Cash Flows From Financing Activities		
Payments on bonds payable	(285,000)	(80,000)
Contributions permanently restricted by donors	1,619,155	966,084
Net cash provided by financing activities	1,334,155	886,084
Net Increase in Cash and Cash Equivalents	4,236,298	782,143
Cash and Cash Equivalents		
Beginning of year	792,868	10,725
End of year	\$ 5,029,166	\$ 792,868
Supplemental data:		
Cash paid for interest	\$ 12,738	\$ 12,985

See accompanying notes to the financial statements.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - NATURE OF ACTIVITIES

The Foundation for the LSU Health Sciences Center (the "Foundation") supports the activities of the LSU Health Sciences Center. The Foundation's activities and purpose include scientific research, educational, solicitation and management of funds, including endowments, and other functions for the benefit of the LSU Health Sciences Center. The Foundation is supported primarily through donor contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Organization and Income Taxes

The Foundation is a Louisiana nonprofit organization under Section 509(a)(3) of the Internal Revenue code that been granted an exemption from the payment of income taxes under Section 503(c)(3) and has been determined to be other than private foundations. The Foundation's management believes that the Foundation continues to operate in a manner that preserves its tax exempt status.

On January 1, 2009, the Foundation adopted a standard relating to the accounting for uncertainty in income taxes. The tax effect from an uncertain tax position can be recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Foundation recognizes the financial statement benefits of a tax position only after determining that the relevant tax authority would be more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. At the adoption date, the Foundation applied the new accounting standard to all tax positions for which the statute of limitations remained open. The Foundation did not make any adjustment to beginning net assets as a result of the implementation of the accounting standard.

Based on its evaluation, the Foundation has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Foundation is no longer subject to U.S. federal income tax examinations by the Internal Revenue Service for the years before 2007.

b) Basis of Accounting

The financial statements of the Foundation are prepared on the accrual basis of accounting.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Risks and Uncertainties

The Foundation holds various investments in any combination of stocks, bonds, fixed income securities, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Given the level of risk associated with certain investment securities and the level of uncertainty related to the changes in the value of investment securities it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the Statements of Financial Position and the Statements of Activities.

d) Basis of Presentation

Financial statement presentation follows the reporting requirements of FASB Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which establishes external financial reporting for not-for-profit organizations. Under ASC 958, net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that the principal not be expended, but rather, invested to provide a permanent source of income for the Foundation's programs.

e) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

f) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation consider all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Investments

Investments are carried at estimated current market value. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the Statement of Financial Position.

h) Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable and other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

i) Funds Held in Custody for Others

The Foundation considers all state matching funds and unexpended income from these funds to be reported as Funds Held in Custody for Others. All Funds Held in Custody for Others are recorded at fair market value.

j) Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

k) Unconditional Promises to Give

Contributions are recognized when a donor makes a promise to give to the Foundation that is, in substance, unconditional. The promises to give are recognized as assets and revenues, net of an allowance for uncollectible amounts. The allowance is based on historical experience and management's analysis of specific promises made. Management's estimate for the allowance of uncollectible promises to give at June 30, 2011 and 2010 was \$6,178 and \$7,611, respectively. A provision for uncollectible promises to give was not recorded for the years ended June 30, 2011 and 2010.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Property and Equipment

The Foundation capitalizes acquisitions of property, furniture, equipment, and accounting software purchased with unrestricted funds in excess of \$5,000. Costs of property, furniture, equipment, and accounting software purchased with unrestricted funds that are less than \$5,000 are charged to expense. The cost of these assets that is classified as program services expense is not capitalized by the Foundation as these assets are owned and used by departments of the LSU Health Sciences Center. Acquisitions of these assets with restricted private donations are also not capitalized by the Foundation as these assets belong to the State of Louisiana. Capitalized assets are carried at cost or, if donated, at the approximate fair value at the date of donation. As of June 30, 2011, all other furniture, equipment, and accounting software owned by the Foundation were purchased with restricted private donations and have not been capitalized. Accounting software is being depreciated over estimated useful lives of one to five years using a straight-line method.

m) Expense Allocation

The costs of providing various programs and other activities are summarized on a functional basis in the financial statements. Accordingly, certain costs are allocated among the programs and supporting services benefited.

n) Required Transfers

The Foundation has received various matching grants from the State of Louisiana under the Eminent Scholars Endowed Chairs and Endowed Professorships programs, which are only approved after certain levels of private funding have been raised. The Foundation must comply with certain policies, procedures, and regulations regarding the administration of these programs. One of the requirements of the Board of Regents for Higher Education's investment policy relates to increasing each program's endowment balance each year and some transfers to permanently restricted net assets were made to comply with this policy.

o) Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Subsequent Events

Subsequent events have been evaluated through September 2, 2011, the date the financial statements were available to be issued.

NOTE 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of the LSU Health Sciences Center. The Foundation conducts numerous program services, including assistance with research, scientific endeavors, educational assistance through faculty salary supplemental compensation and student scholarships, equipment purchases for specific departments, etc. These restrictions are considered to expire when payments for restricted purposes are made. None of the temporarily restricted net assets are time-restricted by donors.

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Permanently restricted purposes	\$ 17,650	\$ 21,750
Less: unamortized discount	(2,537)	(2,584)
Less: allowance for uncollectible amounts	<u>(6,178)</u>	<u>(7,611)</u>
Net unconditional promises to give	<u>\$ 8,935</u>	<u>\$ 11,555</u>
Amount due in:		
Less than one year	\$ 700	\$ 1,300
One to five years	7,600	9,600
Over five years	<u>9,350</u>	<u>10,850</u>
Total	<u>\$ 17,650</u>	<u>\$ 21,750</u>

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 5 - INVESTMENTS

As of June 30, 2011, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
U.S. Government Agency mortgage-backed securities	\$ 3,022,565	\$ 3,708,303	\$ 685,738
U.S. Government Agency bonds and notes	20,992,333	25,754,927	4,762,594
Corporate bonds and notes	8,322,404	10,210,533	1,888,129
Mutual funds and other equities	37,604,018	46,135,356	8,531,338
Hedge funds	6,442,618	7,904,274	1,461,656
Money market/certificate of deposit	<u>7,883,954</u>	<u>7,883,954</u>	-
Total	<u>\$ 84,267,892</u>	<u>\$ 101,597,347</u>	<u>\$17,329,455</u>

Investment return for the year ended June 30, 2011 is summarized as follows:

Interest and dividend income	\$ 2,755,879
Net realized and unrealized gains	15,269,722
Total investment income	<u>\$ 18,025,601</u>

As of June 30, 2010, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
U.S. Government Agency mortgage-backed securities	\$ 3,637,326	\$ 3,729,791	\$ 92,465
U.S. Government Agency bonds and notes	25,852,211	26,509,405	657,194
Corporate bonds and notes	9,543,732	9,786,345	242,613
Mutual funds and other equities	34,410,126	35,284,879	874,753
Hedge funds	7,580,596	7,773,304	192,708
Money market/certificate of deposit	<u>4,060,941</u>	<u>4,060,941</u>	-
Total	<u>\$ 85,084,932</u>	<u>\$ 87,144,665</u>	<u>\$ 2,059,733</u>

Investment return for the year ended June 30, 2010 is summarized as follows:

Interest and dividend income	\$ 2,360,847
Net realized and unrealized losses	<u>8,655,001</u>
Total investment gain	<u>\$ 11,015,848</u>

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 5 – INVESTMENTS (CONTINUED)

The Board of Directors has been advised by legal counsel that under Louisiana state law, the gains from sales of securities and increases in market value are to be treated as principal, and must be retained in endowment fund accounts. However, under the Uniform Management of Institutional Funds Act adopted in Louisiana, such gains and appreciation in value may be expended for the purposes designated by the donors if it is prudent in the judgment of the Board of Directors after considering the long and short term needs of the LSU Health Sciences Center, its present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

If any donor stipulates that realized and unrealized investment gains should not be spent on the restricted purpose for which a fund was originated, then such gains will be added to investment principal and will not be expendable in the future. No such stipulations were present at June 30, 2011.

Investment income from interest, dividends and realized gains and losses are allocated to various activities and programs under the Foundation's investment policy. The portion that pertains to unrestricted and short term donor restricted activities is reported as unrestricted revenue, and the portion that pertains to permanent endowment activities is reported as temporarily restricted revenue, because it could be expended on the restricted purposes of the endowments in subsequent periods.

The Foundation invests in a hedge fund. The investment is a sophisticated, multi-strategy, multi-manager program designed to achieve an optimal balance of upside return potential and downside protection. The investment offers a diversified strategy protecting and preserving the Foundation's capital and a hedged equity strategy providing long-term capital growth. Both strategies also work to deliver risk-adjusted returns by capturing the market's return potential but with much less volatility. The portfolios are constructed using a time tested, disciplined methodology focused first on risk management. The managers then work to identify strategies within a framework and to develop relationships with investment managers. The fund has a demonstrated track record of superior performance in maintaining a highly disciplined and effective investment allocation decision process. The result is a portfolio with a demonstrated ability to protect capital from loss in adverse market conditions and to produce superior risk-adjusted returns. The derivative instrument is designated as a fair value hedging instrument. The fund's fair market value was \$7,904,274 and \$7,773,304 at June 30, 2011 and 2010, respectively.

The Foundation's objective is to maximize its returns related to this investment. The Foundation does not invest in individual hedge funds, but instead, monitors the activity and returns of the manager. The Foundation's investment committee continuously examines the returns of the manager to ensure the Foundation's investment objectives are reached.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 5 – INVESTMENTS (CONTINUED)

The returns from this hedge fund are reported and posted quarterly reflecting the fair market value as of the reporting date. The earnings on the hedge fund are included in unrealized gains (losses) in the Statement of Activities.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Accounting software	\$ -	\$ 86,564
Building	-	-
Less accumulated depreciation	-	(86,564)
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>
Construction in progress	\$ 802,315	\$ -
Land	<u>215,027</u>	<u>315,467</u>
Total non depreciable assets	<u>\$1,017,342</u>	<u>\$ 315,467</u>

The Foundation recorded depreciation expense of \$0 and \$86,564 as of June 30, 2011 and 2010, respectively.

The building owned and operated by the Foundation located at 2000 Tulane Avenue was heavily damaged by Hurricane Katrina August 29, 2005 and was demolished during fiscal year 2010 (See Note 15).

NOTE 7 - CONCENTRATION OF CREDIT RISKS

The Foundation maintains its cash accounts in several financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation and collateralized for greater amounts by agreement with some financial institutions. Additionally, in accordance with the Dodd-Frank Insurance Provision, non-interest bearing transaction accounts are fully insured by the FDIC.

NOTE 8 - FUNDS HELD IN CUSTODY

Under agreements with Louisiana State University Agricultural and Mechanical College (the "University"), the Foundation holds and manages funds received by the University as state matching funds for various accounts of the Eminent Scholars Endowed Chairs and the Endowed Professorship Programs. Funds held in custody were \$22,818,885 and \$19,347,004 on June 30, 2011 and 2010, respectively. The amount of state matching funds received was \$480,000 and \$80,000 for the fiscal years ended 2011 and 2010, respectively.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 9 - ADVERTISING

The Foundation advertises to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs for the fiscal years ended June 30, 2011 and 2010 were \$11,459 and \$6,425, respectively.

NOTE 10 - BONDS PAYABLE

The Foundation financed the renovation of a building (2000 Tulane Avenue) purchased on May 15, 2003 with bond proceeds of \$2,035,000 over a 20-year period through the LPFA Capital Facilities Pool Program. The bond issue is supported by a bank letter of credit. The Foundation's ability to service this debt is based primarily on its ability to raise funds and earn other revenue from lease payments from the occupants. As discussed in Note 15, the building was heavily damaged by Hurricane Katrina on August 29, 2005 and during fiscal year 2010, the building was demolished. The Foundation reduced certain expenditures and as a result, management believes it will be able to meet this debt obligation even with the loss of the rental income from the building.

The Foundation issued bonds in January 2002 totaling \$2,035,000 with a variable interest rate. The interest rate paid for 2011 and 2010 amounted to approximately 0.88% and 0.80%, respectively. The bond issuance costs of \$35,000 are being amortized over the life of the bonds beginning July 1, 2002. Bond amortization expense for each of the fiscal years ended June 30, 2011 and 2010 was \$1,591.

Unamortized bond issuance costs at June 30, 2011 and June 30, 2010 were \$20,681 and \$22,272, respectively. Bonds payable, net at June 30, 2011 and 2010 were \$1,284,319 and \$1,567,728, respectively.

The bond proceeds were used to finance the renovation of the building. Bond proceeds available at June 30, 2011 are held by a trustee in restricted cash accounts. Restricted cash at June 30, 2011 and 2010 totaled \$108,836 and \$98,058, respectively. Principal payments of \$285,000 and \$80,000 were made on the bond in the years ended June 30, 2011 and 2010, respectively. Interest was paid on the bonds in the amounts of \$12,738 and \$12,985 for the years ended June 30, 2011 and 2010, respectively.

The future maturities of bonds payable are as follows:

Years ending June 30:	
2012	\$ 90,000
2013	95,000
2014	95,000
2015	100,000
2016	105,000
2017-2021	600,000
2022-2024	<u>220,000</u>
Total	<u>\$1,305,000</u>

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 11 - RETIREMENT PLAN

Effective July 1, 2002, the Foundation established a Tax Deferred Annuity or 403(b) Plan. The Foundation's total contributions expense was \$27,618 and \$26,603 as of June 30, 2011 and 2010, respectively, which is included in salaries and benefits.

The Foundation contributes to the Louisiana State University Health Sciences Center Foundation 403(b) Plan, which is intended to be an ERISA Section 404(c) participant-directed plan. Participants exercise control over the assets in their accounts, which is funded exclusively through the purchase of annuity contracts for The Variable Annuity Life Insurance Company (VALIC). Employees are eligible to participate upon the date of employment. Under the Plan, the Foundation matches amounts contributed up to 6% of the employee's compensation only if the employee has completed a year of service and is at least 21 years of age.

NOTE 12 - SPLIT-INTEREST AGREEMENTS

The Foundation has entered into two (2) charitable gift annuity agreements. A charitable gift annuity provides for the payment of distributions to the grantor or designated beneficiaries over the trust's term. In consideration of the contribution, the Foundation shall pay an annual annuity of \$6,795 paid in quarterly installments to the donor so long as they are living. The Foundation's obligation will terminate upon the donor's death. The present value of the estimated future payments (\$55,193 at June 30, 2011) is calculated using a discount rate of 2.8% and the applicable mortality rates. The Foundation made payments to the donor in the amount of \$6,975 for each of the years ended June 30, 2011 and 2010, respectively.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") and FASB ASC 825, *Financial Instruments* ("ASC 825") require disclosure of fair value information about financial instruments, whether or not recognized in the Statements of Financial Position. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. ASC 825 excludes certain financial instruments from its disclosure requirements.

Level 1 classification is applied to any asset that has a readily available quoted price from an active market where there is significant transparency in the executed/quoted price.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 2 classification is applied to assets that have evaluated prices received from fixed income vendors with data inputs which are observable either directly or indirectly, but do not represent quoted prices from an active market for each individual security.

Level 3 classification is applied to assets for which prices are not derived from existing market data.

Investment securities - The fair value of investment securities including U.S. government agency mortgage-backed securities, U.S. government agency bonds and notes, corporate bonds and notes, hedge funds and mutual funds and other equities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quoted prices are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the investment.

Money market/certificate of deposit - The fair value of money market accounts and certificates of deposit are the amounts payable on demand at the reporting date. The fair value is estimated by discounting the future cash flows using the market rates offered as of December 31 for similar deposits with the same remaining maturities.

Unconditional promises to give - The fair value of contributions is equal to the carrying value for contributions expected to be collected within one year. Contributions expected to be collected in future periods are discounted to present value based on management's assumptions.

Split interest agreements - The fair value of split interest agreements is based on the present value of estimated future payments based on management's assumptions.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The valuation of the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and 2010 are as follows:

Fair value measurement at reporting date using above description:

June 30, 2011

ASSETS	Balance as of 6/30/2011	Level 1	Level 2	Level 3
Unconditional promises to give	\$ 8,935	\$ -	\$ -	\$ 8,935
U.S. government agency mortgage-backed securities	3,708,303	-	3,708,303	-
U.S. government agency bonds and notes	25,754,927	-	25,754,927	-
Corporate bonds and notes	10,210,533	10,210,533	-	-
Mutual funds and other equities	46,135,356	46,135,356	-	-
Hedge funds	7,904,274	-	7,904,274	-
Money market/certificate of deposit	7,883,954	-	7,883,954	-
Total	\$ 101,606,282	\$ 56,345,889	\$ 45,251,458	\$ 8,935

LIABILITIES	Balance as of 6/30/2011	Level 1	Level 2	Level 3
Split interest agreements	\$ 55,193	\$ -	\$ 55,193	\$ -
Total	\$ 55,193	\$ -	\$ 55,193	\$ -

The changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair values are as follows:

ASSETS	Level 3 beginning balance 7/1/2010	Net realized and unrealized gains (losses)	Net payments and gifts	Level 3 ending balance 6/30/2011
Unconditional promises to give	\$ 11,555	\$ (6,720)	\$ 4,100	\$ 8,935
Total	\$ 11,555	\$ (6,720)	\$ 4,100	\$ 8,935

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement at reporting date using above description:

June 30, 2010

ASSETS	Balance as of 6/30/2010	Level 1	Level 2	Level 3
Unconditional promises to give	\$ 11,555	\$ -	\$ -	\$ 11,555
U.S. government agency mortgage-backed securities	3,729,791	-	3,729,791	-
U.S. government agency bonds and notes	26,509,411	-	26,509,411	-
Corporate bonds and notes	9,786,345	9,786,345	-	-
Mutual funds and other equities	35,284,873	35,284,873	-	-
Hedge funds	7,773,304	-	7,773,304	-
Money market/certificate of deposit	4,060,941	-	4,060,941	-
Total	\$ 87,156,220	\$ 45,071,218	\$ 42,073,447	\$ 11,555

LIABILITIES	Balance as of 6/30/2010	Level 1	Level 2	Level 3
Split interest agreements	\$ 56,503	\$ -	\$ 56,503	\$ -
Total	\$ 56,503	\$ -	\$ 56,503	\$ -

The changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair values are as follows:

ASSETS	Level 3 beginning balance 7/1/2009	Net realized and unrealized gains (losses)	Net payments and gifts	Level 3 ending balance 6/30/2010
Unconditional promises to give	\$ 40,447	\$ (39,742)	\$ 10,850	\$ 11,555
Total	\$ 40,447	\$ (39,742)	\$ 10,850	\$ 11,555

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2011

NOTE 14 - RELATED PARTY TRANSACTIONS

In the normal course of business, the Foundation reimburses the LSU Health Sciences Center for certain expenses and makes distributions to or on behalf of the Health Sciences Center. The Foundation also provides certain services for the Health Sciences Center. Included in expenses for the year ended June 30, 2011 and 2010 are \$4,046,872 and \$4,266,537, respectively, which represents payments on behalf of the Health Sciences Center. At June 30, 2011 and 2010, there were no funds due to or from the Health Sciences Center.

NOTE 15 - REPLACEMENT BUILDING

During fiscal 2006, Hurricane Katrina substantially damaged the building (2000 Tulane Avenue) that housed the Foundation's offices. During fiscal 2010, the building was demolished and the resulting loss was recorded on the Foundation's Statement of Activities and the value of the building recorded on the Foundation's Statement of Financial Position was written off.

The Foundation has negotiated with the Federal Emergency Management Agency (FEMA) and received a project worksheet for \$7,469,668. The Foundation has begun the process of building a new facility at a contracted cost of \$7,469,668. This building is expected to be completed in the fall of 2012 and as of June 30, 2011, the Foundation has \$802,315 in construction in progress recorded on its Statement of Financial Position related to this building.

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS* AND
THE SINGLE AUDIT ACT**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Board of Directors
The Foundation for the LSU Health Sciences Center
New Orleans, Louisiana

We have audited the financial statements of The Foundation for the LSU Health Sciences Center (the "Foundation") (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Foundation, the Board of Directors, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Carr, Riggs & Ingram, LLC

September 2, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH CIRCULAR A-133**

Independent Auditor's Report

Board of Directors
The Foundation for the LSU Health Sciences Center
New Orleans, Louisiana

Compliance

We have audited the compliance of The Foundation for the LSU Health Sciences Center (the "Foundation") (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the entity's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the Foundation, the Board of Directors, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Carr, Riggs & Ingram, LLC

September 2, 2011

**Foundation for the LSU Health Science Center
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

DESCRIPTION	CFDA NUMBER	FEDERAL AND OTHER EXPENDITURES
DEPARTMENT OF HOMELAND SECURITY		
Pass through the State of Louisiana:		
Governor's Office of Homeland Security and Emergency		
Preparedness		
Public Assistance Grant - Katrina 1603	97.036	<u>\$ 792,073</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY		<u><u>\$ 792,073</u></u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$ 792,073</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
FOOTNOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic of Presentation

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenue was recorded for financial reporting purposes when the Foundation has met the qualifications for the respective grant. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts are presented in, or used in the preparation of, the basic financial statements.

Accrued and Deferred Reimbursement

Timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Accrued balances at year-end represented an excess of reimbursable expenditures over cash reimbursements received. Generally, accrued balances caused by differences in the timing of cash reimbursements and expenditures will be reversed in the remaining grant period.

THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the Foundation.
2. No control deficiencies were disclosed during the audit of the financial statements and reported in the *Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Foundation are reported in the *Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*.
5. The auditors' report on compliance with requirements applicable to major federal award programs for the Foundation expresses an unqualified opinion.
6. The auditors' report disclosed no findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. A management letter was not issued for the year ended June 30, 2011.
8. The program tested as major program was:

	<u>CFDA No.</u>
Disaster Grants-Public Assistance	
(Presidentially Declared Disasters)	97.036
9. The threshold for distinguishing between type A and type B programs was \$300,000.
10. The Foundation was determined to be a high-risk auditee.

B. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings required to be reported in this section.

C. FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL AWARD PROGRAMS

There were no findings required to be reported in this section.

**THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
SUMMARY SCHEDULE OF PRIOR YEAR
FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011**

SECTION I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None.

**SECTION II - FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL
AWARD PROGRAMS**

Not Applicable. The Foundation did not qualify for an A-133 Audit in prior year.

SECTION III - MANAGEMENT LETTER

A management letter was not issued in prior year.

**THE FOUNDATION FOR THE LSU HEALTH SCIENCES CENTER
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2011**

SECTION I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None.

**SECTION II - FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL
AWARD PROGRAMS**

None.